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No. 07-1293

IN THE

Supreme Court of the United States

OLE K. NILSSEN AND GEO FOUNDATION, LTD.,
Petitioners,

v.

OSRAM SYLVANIA, INC. AND
OSRAM SYLVANIA PRODUCTS, INC.,
Respondents.

On Petition for a Writ of Certiorari to the United States Court of Appeals for the Federal Circuit

PETITIONERS' REPLY TO BRIEF IN OPPOSITION

HARRY J. ROPER
RAYMOND N. NIMROD
JONATHAN HILL
JENNER & BLOCK LLP
330 N. Wabash Ave.
Chicago, IL 60611
(312) 222-9350

PAUL M. SMITH*
MARC A. GOLDMAN
SAM HIRSCH
JENNER & BLOCK LLP
1099 New York Ave., N.W.
Washington, DC 20001
(202) 639-6000

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**Counsel of Record*

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REPLY TO BRIEF IN OPPOSITION

Respondents make only one argument against review of the important issues raised here — that there was a trial on inequitable conduct and the Federal Circuit properly deferred to the District Court's findings. That is no argument at all. The fact that there was a trial does not mean that the *legal* standards applied were correct. To the contrary, the courts below applied tests for the elements of inequitable conduct that (1) bear no resemblance to the concerns that led this Court to recognize the doctrine of inequitable conduct and (2) are the very reason why claims of inequitable conduct have become a harmful distraction in nearly every patent-infringement case. As Judge Rader of the Federal Circuit put it earlier this month:

> Although designed to facilitate USPTO examination, inequitable conduct has taken on a new life as a litigation tactic. The allegation of inequitable conduct opens new avenues of discovery; impugns the integrity of patentee, its counsel, and the patent itself; excludes the prosecuting attorney from trial participation (other than as a witness); and even offers the trial court a way to dispose of a case without the rigors of claim construction and other complex patent doctrines.

Aventis Pharma S.A. v. Amphastar Pharms., Inc., ___ F.3d ___, No. 2007-1280, 2008 WL 2039065, at *12 (Fed. Cir. May 14, 2008) (dissenting opinion).

Respondents' suggestion that petitioners are merely rearguing the facts is belied by objective observers who have criticized the materiality and intent standards applied in this very case.

First, as to materiality, the Senate Judiciary Committee cited this case as a prime example of recent decisions applying the materiality requirement in a manner that improperly underemphasizes the question whether the claimed omission or misstatement was important to the PTO's decision to issue the patent. S. Rep. No. 110-259, at 33 n.155 (2008) ("The Committee noted that certain court decisions appear to emphasize improperly the first part of this definition (reasonably important to an examiner) without giving necessary consideration to the latter part of the definition (in deciding whether to allow the patent)." (citing, *inter alia*, *Nilssen v. Osram Sylvania, Inc.*, 504 F.3d 1223 (Fed. Cir. 2007))).[1]

Second, as to intent, Judge Rader cited the ruling below on small-entity maintenance payments as a leading example of recent decisions that have "too often emphasized materiality almost to the exclusion of any analysis of the lofty intent requirement for inequitable conduct, . . . [m]erging intent and materiality at levels far below" what the law

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[1] The patent reform legislation addressed in this Senate Report is now dead, at least for this year. In any event, contrary to respondents' odd suggestion, Br. in Opp. 19, the courts, not Congress, are the best forum to reassess a doctrine that was judicially created and serves to identify those litigants who have forfeited their right to invoke the judicial power to enforce their patents.

ostensibly requires. *Aventis Pharma*, 2008 WL 2039065, at *13 (dissenting opinion).

Respondents' argument is particularly inapt given this Court's frequent recognition that fully litigated cases, with complete factual records, provide the best vehicles for assessing important issues of law. *See, e.g., Virginia Military Inst. v. United States*, 508 U.S. 946 (1993) (Scalia, J., concurring); *Estelle v. Gamble*, 429 U.S. 97, 115 (1976) (Stevens, J., dissenting). Here, the trial record underscores how little evidence is required to find inequitable conduct and how meaningless the purported third phase of the analysis — balancing the equities — has become. But the focus of this petition remains the legal standards applied below and in other recent cases.

Strikingly, respondents make no effort to rebut petitioners' showing that the doctrine of inequitable conduct has become a "plague" on the patent system. Pet. 20-23. Indeed, the problem is undeniable. And for whatever reason, the Federal Circuit seems incapable of providing a solution. It is time for this Court to review the standards that must be met before rights to extremely valuable inventions can be nullified.

I. MATERIALITY

Respondents contend this case presents no *legal* issues as to materiality because materiality is "inherently fact-intensive" and was a disputed issue at trial. Br. in Opp. 9-11. But as we have shown, most of the Federal Circuit's rulings upholding findings of materiality turned not on analysis of

whether the omission or misstatement actually was material to the prosecution, but rather on technical rules providing that particular types of conduct (failure to cite litigation involving the same "subject matter," underpayment of maintenance fees, and cross-referencing errors) are material *per se*. Pet. App. 14a, 18a, 20a. Underlying the Federal Circuit's recognition of these rules was a conception of the materiality standard that is so expansive as to be close to unrecognizable. That standard went beyond (1) the concept of materiality reflected in this Court's decision in *Precision Instrument*,[2] (2) the definition of materiality the PTO promulgated in Rule 56,[3] and (3) even the broader "reasonable examiner" standard the Federal Circuit itself has endorsed. Pet. 16-19. It did so by punishing omissions or misstatements that could not have been deemed material under any of these three standards.

Respondents do not really contest any of this. They note that *one* of the inequitable-conduct findings (failure to cite prior art) involved information that potentially affected patentability. Br. in Opp. 9. But that error applied to only three of the eleven patents in suit. Respondents do not assert that Nilssen's failure to cite the *Motorola* litigation, his technical cross-referencing errors, or his underpayment of maintenance fees had *any* potential relevance to patentability.[4] They ignore

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[2] *Precision Instrument Mfg. Co. v. Auto. Maint. Mach. Co.*, 324 U.S. 806, 814-20 (1945).

[3] 37 C.F.R. § 1.56 (2004), Pet. App. 81a-84a.

[4] Respondents also note that the District Court held two *withdrawn* patents unenforceable because Nilssen submitted

the first two altogether. As to the maintenance fees, their sole response is to quote the Federal Circuit's conclusion that underpayment of maintenance fees is material precisely because, though it could not affect patentability, the Federal Circuit has held that underpayment can render a patent unenforceable. Br. in Opp. 10 (quoting *Ulead Sys., Inc. v. Lex Computer & Mgmt. Corp.*, 351 F.3d 1139, 1146 (Fed. Cir. 2003)). But that circular reasoning does not provide an independent justification for treating as inequitable conduct the underpayment of a fee, years after a valid patent has issued. It is one thing to say that the "'atomic bomb' remedy of unenforceability," *Aventis Pharma*, 2008 WL 2039065, at *12 (Rader, J., dissenting), is necessary to protect the integrity of the *ex parte* patent prosecution process. It is quite another to apply that remedy to a failure to pay the full amount of a maintenance fee.

Respondents make a token effort to defend the newly expanded concept of materiality. They assert that "the Federal Circuit has long recognized" that materiality need not "relate to the issuance of a patent in the first instance." Br. in Opp. 9 (citing cases). But their cases all say that the misstatement

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expert affidavits without saying the expert was affiliated with Nilssen. Br. in Opp. 6. But there was no allegation that anything in the affidavits was false, and no rule required Nilssen to submit this information. Pet. App. 9a-10a. The Federal Circuit nonetheless held the information *per se* material, eliminating any need to show that the omitted information could have been important to a reasonable examiner. *Id.* at 10a. This is yet another example of the Federal Circuit's expanding the materiality standard by applying *per se* rules.

or omission must at least be "important" to a "reasonable examiner" in "*deciding whether to issue the patent.*" *Merck & Co. v. Danbury Pharmacal, Inc.*, 873 F.2d 1418, 1421 (Fed. Cir. 1989) (emphasis added). That standard itself is too broad, given that it disregards the stricter rule set forth in Rule 56 and applied by patent examiners. In the case of small-entity payments, this standard also disregards the explicit remedy set forth in the regulations. 37 C.F.R. § 1.28(c) (2005). When agencies act under delegated authority to police their own decisionmaking processes, those decisions are entitled to deference. *See* Pet. 18-19 (citing examples); *see also National Cable & Telecomm. Ass'n v. Brand X Internet Servs.*, 545 U.S. 967, 982-83 (2005) (agency action after judicial action nonetheless entitled to deference); *City of Milwaukee v. Illinois*, 451 U.S. 304, 315-19 (1981) (agency establishment of remedy pursuant to congressional scheme displaces equitable remedy). In any event, the Federal Circuit's "reasonable examiner" standard does not justify the ruling in this case, where the Federal Circuit continued its recent trend of deciding that a misstatement or omission was "important" irrespective of any potential connection to the issuance of a patent. *See* Pet. 19 (citing examples).

Such rulings, as the decision below dramatically illustrates, divorce the inequitable-conduct doctrine from the goal of protecting the public from issuance of unwarranted patents. In the process, they increase the cost and decrease the predictability of patent litigation and diminish incentives to invest in innovative technologies. Respondents ignore the

academic literature and the conclusions of the National Academies of Sciences and of Engineering emphasizing these concerns. As the Senate Judiciary Committee recently recognized, *see supra* p.2, this case is a prime example of the results that an overly broad concept of materiality will foster.

II. INTENT

Turning to intent, respondents again disregard the fundamentally legal, rather than factual, nature of petitioners' argument. The District Court, in finding intent, and the Federal Circuit, in affirming, relied on reasoning that illustrated the recent pattern of applying what amounts to little more than a negligence standard. Commentators have noted the dire consequences of this trend, *see* Pet. 21-22, and Judge Rader properly cited this case as a prime example of it, *see supra* pp.2-3. This Court should grant certiorari and make clear that actual evidence of deceptive intent is required before valuable patent rights can be nullified.

That evidence, to be sure, need not be direct. *See* Br. in Opp. 13 (noting that direct evidence of intent is often hard to find). But *some* affirmative evidence, direct or circumstantial, is required. And the evidence must be particularly persuasive when the motive for intentional deception is paltry. It may be true, as respondents argue, *id.* at 12-13, that some people engage in misconduct even when it is irrational to do so. But that does not mean that the relative lack of financial motivation can be ignored.

Here, it is undisputed that the potential benefit of the claimed errors (if any) paled beside what Nilssen

stood to lose. Respondents nonetheless persuaded the District Court to label all but one of the errors "highly material" and used that to justify inferences of intent. They now insist that the Federal Circuit properly deferred to these findings of intent, even though it pointedly failed to accept the determinations of high materiality. Instead, the Federal Circuit relied on other erroneous rationales.

First, the court relied on the District Court's findings that Nilssen's explanations were not credible. Pet. App. 14a-22a. But disbelieving a witness is not a sufficient basis for affirmatively finding the opposite of his testimony — especially by clear-and-convincing evidence. *See, e.g.*, *Bose Corp. v. Consumers Union of U.S., Inc.*, 466 U.S. 485, 512 (1984) ("[D]iscredited testimony is not considered a sufficient basis for drawing a contrary conclusion."); *Moore v. Chesapeake & Ohio Ry. Co.*, 340 U.S. 573, 576 (1951) ("[D]isbelief of the [witness's] testimony would not supply a want of proof.").[5]

Second, the Court of Appeals relied on the existence of "a collection of [Nilssen's] problems." Pet. App. 22a. Put differently, it borrowed evidence of intent from one patent and applied it to others. That too was a legal error, given the significant negative consequences of such a "mosaic" approach. Pet. 30-31.

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[5] Like the District Court, respondents suggest that Nilssen's experience in patent prosecution rendered him an expert on all the technical provisions of the voluminous MPEP. Br. in Opp. 3. But as the Federal Circuit concluded, Nilssen was an expert in "the subject matter of his inventions," not patent law. Pet. App. 23a.

The result was affirmance of the District Court's reliance on minor errors as to which there was no clear evidence of intent. As the petition discussed at length, for example, the evidence of intent regarding the '270 patent was virtually nonexistent. Pet. 30, 36. Respondents do not argue otherwise. Perhaps that is because the sole "evidence" of deceptive intent as to the '270 patent was the District Court's disbelief of Nilssen's explanation that he determined to pay small-entity fees on some patents (while paying large-entity fees on others) based on his reading of the relevant contract — a reading that the Federal Circuit deemed reasonable. Pet. App. 22a. If that qualifies as clear-and-convincing proof that the inventor intended to deceive the PTO, it is hard to imagine how any inequitable-conduct claim could fail for insufficient proof of intent.

III. BALANCING THE EQUITIES

This Court should also grant review to determine whether, before a trial court can declare a patent unenforceable, it must balance the equities based on factors similar to those this Court has articulated in analogous contexts, such as punitive damages. Respondents do not deny the need to balance the equities. Yet they claim it is enough for the court to have "*recited* the correct legal standard," Br. in Opp. 15 (emphasis added). The mere incantation of a legal principle does not foreclose this Court's review.

As noted in the petition, we have not located any case in which the Federal Circuit reversed a district court for incorrectly balancing the equities. Pet. 32-33. To be sure, the standard of review is deferential.

But deferential review does not mean no review. As Justice Frankfurter once explained, total deference amounts to "authorization of arbitrariness." *Brown v. Allen*, 344 U.S. 443, 496 (1953). Indeed, we are unaware of any district-court decision balancing the equities to find enforceability.

Much of the problem flows from the Federal Circuit's failure to articulate the factors to be applied in equitable balancing, such as those this Court has applied in other contexts. Pet. 33. As this Court has explained, "[d]iscretion is not whim, and limiting discretion according to legal standards helps promote the basic principle of justice that like cases should be decided alike." *Martin v. Franklin Capital Corp.*, 546 U.S. 132, 139 (2005).

Such channeling is particularly important here, given the principle that the "punishment should fit the crime." *BMW of N. Am., Inc. v. Gore*, 517 U.S. 559, 575 n.24 (1986). That is not simply a constitutional principle, as respondents suggest, but one "'deeply rooted . . . in common-law jurisprudence.'" *Id.* (quoting *Solem v. Helm*, 463 U.S. 277, 284 (1983)). And it is a principle that has been applied even when the district court has substantial discretion. *See Solem*, 463 U.S. at 290, 303 (applying proportionality analysis to assess whether punishment was cruel and unusual, despite the "substantial deference" owed "to the discretion that trial courts possess in sentencing convicted criminals"); *Goya Foods, Inc. v. Wallack Mgmt. Co.*, 344 F.3d 16, 19-20 (1st Cir. 2003) (reviewing sanctions for proportionality).

The Federal Circuit's failure to articulate the relevant proportionality factors or to provide meaningful review leads directly to decisions like this one. All that the District Court said about the equities is that, based on the totality of circumstances, Nilssen's conduct was "so culpable as to render the patents at issue unenforceable." Pet. App. 63a; *accord id.* at 54a-55a, 63a, 72a, 78a. The District Court did not say why. There is no indication it considered factors such as proportionality. And the Federal Circuit did not address the equities at all. Any serious evaluation of the equities would have led to the conclusion that Nilssen's conduct did not warrant the penalty imposed here. Pet. 35-36.

Respondents do not even attempt to dispute this. Like the courts below, they fail to explain how errors that had no potential to affect patentability, that provided virtually no benefit to Nilssen, and for which the evidence of intent was thin at best could possibly justify sanctions potentially worth hundreds of millions of dollars.[6] Rendering unenforceable the innovative and valuable '270 patent, for example,

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[6] Respondents assert there is no record evidence that Nilssen's patents were worth hundreds of millions of dollars. Br. in Opp. 3. It is not the exact figure but the concept of proportionality that is crucial, however. There is no doubt that the patents were extremely valuable. Nilssen provided evidence of a license for a 5% royalty under which a single player in the CFL market paid about $3 million in 2005, before CFL sales began to expand dramatically. Fed. Cir. App. 14259, 14263, 17500. Nilssen also provided evidence that he was awarded $23.4 million from MagneTek in patent-infringement arbitration. *Id.* at 20630 ¶ 11.

solely because Nilssen underpaid maintenance fees by $5,000, with no evidence of intent beyond the underpayment itself, and no relevance to patentability, cannot be justified as equitable.

Respondents couple their argument that the petition is fact-bound with an inconsistent argument that petitioners are attacking the inequitable-conduct doctrine itself. Br. in Opp. 19. In fact, petitioners ask this Court to take important steps to prune, but not abolish, a doctrine that has lost touch with its equitable roots. In the 1980s, the Federal Circuit itself tried to limit the doctrine, but the excesses have returned with a vengeance, as commentators have recognized and as is evident from the doubling of cases with inequitable conduct rulings in a recent four-year period. Pet. 22. And this case will only make things worse, as both Judge Rader and the Senate Judiciary Committee recently recognized. *See supra* pp.1-3. It is time for this Court to intervene and reaffirm that the inequitable-conduct doctrine does not provide "a remedy for every mistake, blunder, or fault in the patent procurement process," but rather is restricted "to only the most extreme cases of fraud and deception." *Aventis Pharma*, 2008 WL 2039065, at *12-*13 (Rader, J., dissenting).

CONCLUSION

The petition for a writ of certiorari should be granted.

Respectfully submitted,

HARRY J. ROPER
RAYMOND N. NIMROD
JONATHAN HILL
JENNER & BLOCK LLP
330 N. Wabash Ave.
Chicago, IL 60611
(312) 222-9350

PAUL M. SMITH*
MARC A. GOLDMAN
SAM HIRSCH
JENNER & BLOCK LLP
1099 New York Ave., N.W.
Washington, DC 20001
(202) 639-6000

** Counsel of Record*

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